

April 2009

Dear Shareholders, Friends of Needham, and Prospective Shareholders:

We are reporting in Exhibit A (attached) the performance results for the Needham Aggressive Growth Fund (“NEAGX,” or the “Fund”), NASDAQ symbol NEAGX, for the quarter ended March 31, 2009 (“1Q09”), the 12 months ended March 31, 2009 (“1 Year”), the three-year period ended March 31, 2009 (“3 Years”), the five-year period ended March 31, 2009 (“5 Years”), and from September 4, 2001 to March 31, 2009 (“Since Inception”). The Fund was down 6.35% for 1Q09, down 21.48% for the 1 Year, down 6.42% for the 3 Years, up 0.80% for the 5 Years, and up 3.19% Since Inception, compounded annually.

Investment returns and principal value will fluctuate, and when redeemed, shares may be worth more or less than their original cost. Shares held less than 60 days are subject to a short-term redemption fee of 2%. The results contained in this report represent past performance of the Fund. Past performance does not guarantee future results and current performance may be higher or lower than these results. Current month-end performance is available at www.needhamfunds.com.

Investment Strategy

NEAGX seeks to create long-term, tax-efficient capital appreciation for its investors. To this end, NEAGX targets the equities of companies with strong, above-average prospective growth rates. The Fund invests, in general, in markets and industries with strong growth rates, focusing on the market leaders in these areas. These market leaders, especially as they break away from their competitors, tend to garner a disproportionate share of the positive financial returns. Also important is the long-term sustainability of the companies’ leadership positions. Thus, the Fund looks for companies with strong management teams, superior balance sheets, above-average margins that can generate excess cash, and strong R&D and brand spending in industries with high barriers to entry.

Investment Profile

As of March 31, 2009, NEAGX’s sector holdings consisted of the following:

Sector	Long ⁽¹⁾	(Short) ⁽¹⁾	Total ⁽¹⁾⁽²⁾
Cash	32.0%	–	32.0%
Technology/Cable/Telecommunications	25.1%	–	25.1%
Healthcare	21.0%	(0.7)%	20.3%
Business Services	11.0%	–	11.0%
Consumer	6.7%	–	6.7%
Industrial	4.1%	–	4.1%
Financial Services	0.8%	–	0.8%
Energy	–	–	–
			100.0%

(1) Based on percentage of total investments as of 3/31/09, which includes all stocks plus cash minus all short positions.

(2) Total represents the difference between the long exposure and the short exposure, which produces the net exposure.

NEAGX's top ten holdings at the end of the first quarter (in descending order of market value) were Gilead Sciences, Inc., Iron Mountain, Inc., Express Scripts, Inc., Precision Castparts Corp., Dolby Laboratories, Inc., Resources Connection, Inc., Apple, Inc., ViaSat, Inc., Varian Medical Systems, Inc., and Airvana, Inc. The top ten holdings represented 40.12% of total investments. Please note that current portfolio holdings may not be indicative of future portfolio holdings. At the end of the first quarter, the market value of stocks sold short represented 0.70% of the total investments held by NEAGX.

Investment Analysis

Extreme volatility continued to affect the stock market during the first quarter of 2009. Bulls and bears intensified their battle. The bears had plenty of ammunition, with continuing deterioration of the world economy; rising defaults (including possibly the entire U.S. auto industry) and unemployment; major uncertainty around financial institutions; frightening budget deficits; and free-falling earnings and real estate markets. The bears won handily the first two months of the quarter, knocking at least 25% off most stock valuations. The bulls had their revenge in the final month, some say as the approach of spring heightens optimism. The bulls themselves preferred to invoke the impact of a multi-trillion-dollar worldwide stimulus program in progress; lower interest rates and improved credit conditions; some stabilization of the banks, with some attracting equity to restore their balance sheet and their ability to issue credit; a merry G20 meeting with world leaders unusually united in combating the recession; and a deceleration in the deterioration of the economy and real estate markets. The bulls shrugged off the obvious bad news and aggressively embarked on a prerequisite to any bull market: climbing the wall of worry, which they did to earn a 25% gain in stock valuation. The quarter ended up as a loss to most growth investors.

During the quarter, NEAGX was down 6.35%, compared to declines of 2.79%, 11.01% and 13.30% for the NASDAQ Composite Index, the Standard & Poor's 500 Index and the Dow Jones Industrial Average, respectively. Our five best performers were Apple, a realized short on Interdigital, CarMax, LeMaitre Vascular and Brocade. Our five worst performers were Express Scripts, Eclipsys, Gilead, Alliance Data Systems and Parametric. Healthcare stocks were negatively impacted by the strengthening dollar, capital spending cutbacks by hospitals and general uncertainty over the healthcare reform planned by the new Administration. A number of companies in the supply chain, which suffered as inventories were sharply curtailed in the October 2008-February 2009 timeframe, started to rebound in March, when restocking began (as we anticipated). Yet, visibility on capital spending and base demand remains very low. Our portfolio is heavily focused on owning market-leading companies with strong franchises (even if in small markets). These companies are all affected by the severe recession and have all suffered in valuation. Yet, we are comforted to see them generally gaining relative ground as markets consolidate in these difficult times. We are concentrating our investing activities on identifying the winners when and if the recovery starts in 2010. We are focusing on: 1) companies that gain market share as their competitors falter; 2) management teams that strike the right balance of proactively streamlining their operations while maintaining their commitments to innovation and customer service; and 3) preferably strong balance sheets. Given the high volatility of the environment, we traded a handful of times during the quarter, something we typically resist doing, but we felt compelled to close positions when our price objectives were met.

Investment Outlook

As we write this report in April, the equity markets have continued to recover with the NASDAQ Composite Index now posting a gain for the year, while the Dow Jones Industrial Average and the S&P 500 Index remain in negative territory. Many times burned investors continue to ask themselves: Have we reached the bottom? Should we return cautiously to investing in growth equities? Or is this another one of these deceiving bear market rallies, like we had in late 2008 and so many times before? We believe that we are likely to have reached the bottom. Yes, equities can correct significantly in the coming weeks or months; fear and doubt are still plentiful in investors' minds and the bearish issues mentioned above remain a concern. The March-April rally has been swift and massive, which raises the issue of its durability when tested by further bad news. Yet, we believe that we are navigating on firmer ground than during the lows of early March, when fear was extreme and the bottom fell out, when the only chances of avoiding a depression (successful Government program and Chinese growth) were doubted. Now, growth in China has resumed

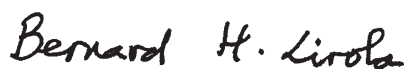
after an inventory adjustment phase, the U.S. stimulus program is more detailed and more credible, and large U.S. banks are regaining some footing. Hence, our belief that the worst could be over. We see more bullish news receiving more press. We remind ourselves that stock markets tend to gain when three conditions are met: valuations are low, liquidity is plentiful on the sidelines, and economic growth lies ahead. Stock markets losses during 2008 reflected the opposite three conditions of high valuations (excessive earnings estimates, excessive P/Es), sparse liquidity (lack of credit or fund redemptions) and negative growth as the economy entered into a recession. Two bullish conditions appear to be met. Firstly, valuations are low, certainly on a historical basis; earnings estimates seem to err on the low side, with many corporations conservatively suspending guidance. Secondly, liquidity has improved with a lot of exited cash waiting for a re-entry point. As to the third prerequisite condition, economic growth lies ahead, likely in 2010, perhaps before. We see signs that investors are willing to take more risks, are lengthening their time horizon beyond tomorrow, next week, as it was during the “Bear Stearns,” “Lehman” days. We are not anticipating any spectacular recovery as the U.S. economy will remain scarred until it regains a sustainable pattern of privately funded growth, without Government emergency intervention. The 25-30% bounce experienced since early March may seem large, but when adjusted to the fact that equities had lost over 50% at the bottom, the bounce represents only 12-15% of gain in peak prices terms. Again, we are not suggesting that any strong market lies ahead. We are only trying to put the recent gyrations in historical perspective in order to guide our investing activities.

Again, we thank our investors for their patience.

Closing

If you have any questions, thoughts or concerns, please do not hesitate to contact us at (800) 625-7071 or visit our Web site at www.needhamfunds.com.

Sincerely,



Bernard Lirola
Portfolio Manager

This report is not an offer of the Needham Aggressive Growth Fund. Shares are sold only through the currently effective prospectus, which must precede or accompany this report. *Please read the prospectus and consider the investment objectives, risks, charges and expenses of the Fund carefully before you invest. The prospectus contains this and other information about the Fund. Investment returns and principal value will fluctuate, and when redeemed, shares may be worth more or less than their original cost. Shares held less than 60 days are subject to a short-term redemption fee of 2%. The results contained in this report represent past performance of the Fund. Past performance does not guarantee future results and current performance may be higher or lower than these results. Current month-end performance is available at www.needhamfunds.com.* Total return figures include reinvestment of all dividends and capital gains. The investment risks of the Fund are increased by the Fund’s non-diversified status and by the Fund’s ability to invest in smaller company stocks, privately held companies and IPOs. Also, the Fund’s use of short sales, options, futures strategies and leverage may result in significant capital loss.

To obtain a copy of the Fund’s current prospectus, please contact the Fund’s transfer agent, Citi Fund Services Ohio, Inc., at (800) 625-7071.

Needham & Company, LLC, member NASD/SIPC, is the distributor of The Needham Funds, Inc.

Exhibit A

Our performance relative to the major indices for these periods is as follows:

	1Q09 ⁽⁶⁾	1 Year ⁽⁷⁾	3 Years ^{(8) (9) (10)}	5 Years ^{(8) (11) (12)}	Since Inception ^{(8) (13) (14)}
Needham Aggressive Growth Fund ⁽¹⁾⁽²⁾	-6.35%	-21.48%	-6.42%	0.80%	3.19%
Needham Aggressive Growth Fund (after taxes on distributions)	-6.35%	-22.39%	-8.43%	-0.58%	2.14%
Needham Aggressive Growth Fund (after taxes on distributions and redemption)	-4.13%	-12.66%	-5.69%	0.50%	2.54%

Benchmarks	1Q09 ⁽⁶⁾	1 Year ⁽⁷⁾	3 Years ^{(8) (10)}	5 Years ^{(8) (12)}	Since Inception ^{(8) (14)}
S&P 500 Index ⁽³⁾	-11.01%	-38.09%	-13.05%	-4.76%	-1.87%
NASDAQ Composite Index ⁽⁴⁾	-2.79%	-32.25%	-12.49%	-4.43%	-0.49%
Russell 2000 Index ⁽⁵⁾	-14.59%	-37.50%	-16.77%	-5.20%	0.85%

1. Total annual fund operating expenses are 2.42%.
2. Investment results calculated after reinvestment of dividends.
3. The S&P 500 Stock Index is a broad unmanaged measure of the U.S. stock market.
4. The NASDAQ Composite Index is a broad-based capitalization-weighted index of all NASDAQ Global Market and Small Cap stocks.
5. The Russell 2000 Index is a broad unmanaged index composed of the smallest 2,000 companies in the Russell 3000 Index.
6. 1/1/09 – 3/31/09.
7. 4/1/08 – 3/31/09.
8. Compound annual growth rate. Assumes all dividends are reinvested in shares of the Fund.
9. Cumulative return for the three years was (18.04%), assuming all dividends were reinvested in shares of the Fund.
10. 4/1/06 – 3/31/09 (annualized return).
11. Cumulative return for the five years was 4.08%, assuming all dividends were reinvested in shares of the Fund.
12. 4/1/04 – 3/31/09 (annualized return).
13. Cumulative return since inception was 26.88%, assuming all dividends were reinvested in shares of the Fund.
14. The inception date of the Fund was 9/4/01. 9/4/01 – 3/31/09 (annualized return).

Note: The average annual returns shown in the above table and accompanying footnotes are historical, reflect changes in share price and are net of expenses. Investment results and the principal value of an investment will vary. Past performance noted above does not guarantee future results. When shares are redeemed, they may be worth more or less than their original cost. Since inception, the Fund's Adviser has absorbed certain expenses of the Fund, without which returns would have been lower.

The after-tax returns are shown in two ways: (1) assuming that an investor owned the Fund during the entire period and paid taxes on the Fund's distributions; and (2) assuming that an investor paid taxes on the Fund's distributions and sold all shares at the end of each period.

After-tax returns are calculated using the highest historical individual federal income tax rate and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown, and after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.